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# Supreme Court of the United States

eBAY, INC. and HALF.COM, INC.,

*Petitioners,*

*v.*

MERCEXCHANGE, L.L.C.,

*Respondent.*

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

## BRIEF OF INTERNATIONAL BUSINESS MACHINES CORPORATION AS AMICUS CURIAE IN SUPPORT OF NEITHER PARTY

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## BRIEF OF INTERNATIONAL BUSINESS MACHINES CORPORATION AS AMICUS CURIAE IN SUPPORT OF NEITHER PARTY [1]

## INTEREST OF AMICUS CURIAE

International Business Machines Corporation (IBM) is a globally recognized leader in the field of information technology research, development, design, manufacturing and related services. IBM has received tens of thousands of United States patents, including more patents than any other corporate assignee for the past thirteen years.[2] Many of IBM's patents are universally recognized as pioneering.

IBM has frequently been involved in patent infringement lawsuits, both as patentee seeking to enforce its patent rights and as accused-infringer defending itself against charges of patent infringement. IBM has thus experienced first-hand the importance of, and the threat posed by, the rights embodied in a United States Letters Patent. IBM therefore believes it can provide a balanced view on important issues implicated by this case - – namely, the guidelines governing permanent injunctions in patent cases and, in particular, the application of equitable principles in granting and structuring patent injunctions.

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1. In accordance with Supreme Court Rule 37.6, Amicus states that this brief was authored in its entirety by the counsel listed herein. No person or entity other than Amicus listed on the cover made a monetary contribution to the preparation or submission of this brief. A blanket consent to the filing of amicus briefs in support of either party has been filed with the Clerk of the Court by petitioners and respondent.

2. The United States Patent and Trademark Office has reported that in 2005 IBM received 2,941 patents, which is over 1,100 more United States patents than any other company. *See* USPTO Releases Annual List of Top 10 Organizations Receiving Most U.S. Patents (Jan. 10, 2006), *available at* http://www.uspto.gov/web/offices/com/speeches/06-03.htm.

## INTRODUCTION AND SUMMARY OF ARGUMENT

In this case, the Federal Circuit repeated what it calls the "general rule" that a permanent injunction will issue in a patent case once infringement is found. The only exception to the "general rule" involves consideration of public interest in the form of public health concerns.

This so-called "general rule" is inconsistent with the patent statute which provides that entitlement to an injunction is not absolute and that principles of equity should be applied in adjudicating a patentee's request for an injunction. 35 U.S.C. § 283 (2005). The history and development of the patent statute confirms that the patentee's "right to exclude" does not require issuance of injunctions in patent cases. Under the original Patent Act of 1790, patentees had the "right to exclude" others from practicing the invention, but only had a remedy of monetary damages. The statutory provision for patent injunctions was not introduced until 1819. Thus, the "right to exclude" alone does not dictate grant of a patent injunction.

The "general rule" is also inconsistent with this Court's analysis of a broad spectrum of equitable considerations in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 422-24, 428-29 (1908) — the case specifically mentioned in the grant of certiorari. There, the Court affirmed the injunction and, in effect, addressed each of the four equitable factors traditionally evaluated in deciding whether to grant an injunction.

These considerations apply not only in deciding whether to grant an injunction but also in determining the scope of an injunction if granted. In the 98 years since *Continental Paper Bag*, the patent laws and their interpretation have adapted to changes in technology and business operations, but the Federal Circuit's approach in addressing patent injunctions has become rigid. The intervening century of continuous, multi-dimensional change only serves to reinforce the appropriateness of applying equitable principles to patent injunctions.

It is therefore appropriate to consult the traditional four-factor analysis used in injunctive relief determinations when addressing patent injunctions. Thus, for example, a court should consider whether the patentee has a legitimate economic interest to be protected by injunction in assessing the presence of irreparable harm. When the patentee and the infringer are competitors, such that an injunction will preserve the patentee's position in the marketplace, the patentee's legitimate economic interest will likely weigh in favor of an injunction. However, if the patentee has no substantial business, and no plan to launch a business, other than patent enforcement, that fact may weigh against grant of a broad injunction and perhaps any injunction at all.

Under the patent statute, a patentee must receive full compensation for damages suffered as a result of infringement. The patent damages law is highly developed, ensuring the patentee a full opportunity to prove its damages. Where the patentee is fully compensable in damages, a court could fairly conclude that the patentee has an adequate remedy at law, weighing against a broad injunction, and possibly any injunction.

The balance of hardships is important in determining whether an injunction will have a disproportionate impact on either party. If an injunction would cause the infringer to abandon a significant investment or incur significant additional costs unrelated to technological merits of the invention, that may weigh against a broad injunction. Similarly, where an infringing product contains many thousands of technological elements, an injunction against a minor, infringing element could have a disproportionate impact on the infringer by preventing the marketing of the entire product, an entire product line and/or interrelated products. The balance of hardship analysis is thus particularly relevant to the scope of an injunction.

The public interest broadly encompasses consideration of the potential impact of a patent injunction on the public.

In the case of patent claims covering industry standards, there is a public interest in maintaining the products embodying the standard in the marketplace, which may counsel in favor of denying an injunction or structuring an injunction in such a way that certain products embodying the standard remain available in the marketplace.

Finally, equitable factors traditionally considered with respect to the granting and structuring of injunctions should also be considered when determining whether to stay an injunction pending appeal in a patent case. The impact of an injunction, even if lifted on appeal, may force settlements on terms that are otherwise not justified. The high reversal rate at the Federal Circuit further counsels in favor of stays.

While expressing no view on the merits of the present case, IBM wishes to explain why courts should be encouraged to consider well-accepted principles of equity when granting and structuring patent injunctions.

## ARGUMENT

### I. THE "GENERAL RULE" CONCERNING PATENT INJUNCTIONS IS NOT FAITHFUL TO THE PATENT STATUTE

In this case, the Federal Circuit reiterated what it termed the "general rule" of granting permanent injunctions in patent cases — namely, "the general rule is that a permanent injunction will issue once infringement and validity have been adjudged."[3] *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005). This so-called "general rule," however, is at odds with the patent statute which provides that patent injunctions *may* be granted "in accordance with principles of equity." 35 U.S.C. § 283. The right to exclude others from practicing an

3. What the Federal Circuit describes as its "general rule" has been applied for over twenty years. *See Roche Prods., Inc. v. Bolar Pharm. Co., Inc.*, 733 F.2d 858, 866 (Fed. Cir. 1984) (marking the last time the Federal Circuit explicitly recognized that an injunction does not automatically follow a finding of infringement).

invention, as is accorded by the patent grant under 35 U.S.C. § 154, does not command automatic grant of injunctions in patent cases. To the contrary, the history and development of the patent statute make clear that the right to exclude does not automatically result in issuance of an injunction.

Under the original United States Patent Statute, a patent grant gave inventors "the sole and exclusive right and liberty of making, constructing, using and vending" their inventions. Patent Act of 1790, ch. 7, § 1, 1 Stat. 109-12 (Apr. 10, 1790). This Court interpreted that statutory language as conferring "the right to exclude others from making, using or vending his invention." *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 35 (1923) (*citing Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 424 (1908)). But, under the original statute, the sole remedy for patent infringement, *i.e.*, violation of the "right to exclude," was an award of the patentee's damages. Patent Act of 1790; *Root v. Lake Shore & Mich. S. Ry. Co.*, 105 U.S. 189, 192 (1882); *Cochrane v. Deener*, 94 U.S. 780, 782 (1877). The original patent statute did not have a provision enabling patent injunctions.

The enabling provision for patent injunctions was introduced into the patent statute some thirty years later, with the Patent Act of 1819, and provided:

> that these courts should have "Original cognizance, as well in equity as at law, of all actions, suits, controversies, and cases arising under any law of the United States, granting or confirming to authors or inventors the exclusive right to their respective writings, inventions and discoveries; and upon any bill in equity, filed by any party aggrieved in any such cases, should have authority to grant injunctions, *according to the course and principles of courts of equity*."

*Cochrane*, 94 U.S. at 782 (*quoting* Patent Act of 1819, ch. 19, 3 Stat. 481 (Feb. 15, 1819)) (emphasis added). Before 1819, courts

did not have equity jurisdiction in patent cases. *Root*, 105 U.S. at 191-92. Thus, although this Court interpreted the original patent statute as providing a "right to exclude," before 1819 a patentee could only recover damages; it could not invoke equity jurisdiction to request an injunction.[4]

Since their separate introductions into the patent laws, the statutory provisions relating to the patentee's right to exclude and the remedy of injunctive relief have remained essentially unchanged in the subsequent patent statutes.[5] The current patent statute provides the patentee with the "right to exclude others from making, using or selling the invention throughout the United States." 35 U.S.C. § 154 (2005). The *remedy* of patent injunctions appears in another section — namely, section 283 which provides:

> The several courts having jurisdiction of cases under this title *may* grant injunctions in accordance with the *principles of equity* to prevent

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4. Under the original Patent Act of 1790, the federal courts had no jurisdiction in equity to hear patent infringement cases. *Root*, 105 U.S. at 191-92. The courts "had cognizance of actions at law brought to recover damages for the infringement of patents." *Cochrane*, 94 U.S. at 782. The courts, therefore, could not grant injunctive relief in a case whose jurisdictional basis rested solely on the Patent Act. *Root*, 105 U.S. at 191-92; *Cochrane*, 94 U.S. at 782. If, however, there was another basis for federal jurisdiction (*i.e.*, diversity), a court could grant injunctive relief. *Root*, 105 U.S. at 191-92; *Cochrane*, 94 U.S. at 782.

5. *See* Patent Act of 1819, ch. 19, 3 Stat. 481 (Feb. 15, 1819); Patent Act of 1836, ch. 357, 5 Stat. 117-25 (July 4, 1836); Patent Act of 1870, ch. 230, 16 Stat. 198-217 (July 8, 1870); Patent Act of 1897, ch. 391, 29 Stat. 692-94 (Mar. 3, 1897); 35 U.S.C. § 1 *et seq.* (1952); *see also* S. REP. No. 1979 (1952), *as reprinted in* 1952 U.S.C.C.A.N. 2394, 2417 ("The wording of the granting clause is changed to 'the right to exclude others from making, using, or selling', following language used by the Supreme Court, to render the meaning clearer.").

> the violation of any right secured by patent, on such terms as the court deems reasonable.

35 U.S.C. § 283 (emphasis added). Under section 283, the remedy of an injunction is not absolute; the statute provides that courts *may* grant injunctions by applying "principles of equity." Separate and apart from injunctive relief, the patentee is in all events entitled to recover damages adequate to compensate for the infringement. 35 U.S.C. § 284 (2005) ("the court *shall* award . . . damages. . . .") (emphasis added).

In sum, the history and development of the patent statute confirms that sections 154 and 283 are separate statutory provisions and that the right to exclude does not by itself confer a basis for granting patent injunctions.

## II. THE "GENERAL RULE" CONCERNING PATENT INJUNCTIONS IGNORES THE FULL SCOPE OF EQUITABLE PRINCIPLES ANALYZED IN *CONTINENTAL PAPER BAG*

Under the so-called "general rule" reiterated in the present case, a permanent injunction will issue as a matter of course once there is a judgment of infringement of a valid patent. The only exception is limited to public interest needs, specifically public health concerns:

> "[C]ourts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest." . . . Thus, we have stated that a court may decline to enter an injunction when "a patentee's failure to practice the patented invention frustrates an important public need for the invention," such as the need to use an invention to protect public health. . . . [T]he district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction.

*eBay*, 401 F.3d at 1338-39 (citations omitted).

The failure to fully examine equitable considerations under this "general rule" stands in marked contrast with the scope of equitable considerations analyzed by this Court in *Continental Paper Bag*, 210 U.S. at 422-24, 428-29.

Although the *Continental Paper Bag* opinion did not explicitly enumerate the four factors commonly articulated in making injunction determinations,[6] the Court's analysis shows it did consider each of those four factors in affirming the patent injunction. For example, the Court considered the irreparable injury factor, noting that "[the] inventor could have kept his discovery to himself," "the monopoly he receives is only for a few years" and "even if the [patentee's] old machines could have been altered [in order to practice the patented approach], the expense would have been considerable." 210 U.S. at 424, 429. The Court also considered the adequacy of legal remedies, noting that "the [patentee's] remedy at law remains." 210 U.S. at 423. With respect to the public interest, the Court considered whether the "conduct of the patentee [contravened] the supposed public policy of the law" and the effect of an injunction on "diminished supply or [] an increase in prices." 210 U.S. at 422-24, 429. Finally, considering the balance of hardships, the Court noted: "the defendant's machine has been an assured commercial success for some years" and that the patentee "had for its motive the saving of the [considerable] expense that would have been involved by changing the equipment of a factory from one set of machines to another." 210 U.S. at 428-29.

In contrast to the robust equitable analysis performed in *Continental Paper Bag*, the so-called "general rule" followed

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6. The well-accepted equitable factors applied to injunction requests are: (1) irreparable injury to the plaintiff, (2) inadequacy of legal remedies, (3) any adverse effects on the public interest and (4) the balance of hardships to the parties. *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982).

by the Federal Circuit ignores three of the four equitable principles applied in injunction determinations and considers a narrow range within the fourth equitable factor — only whether there is a public health concern.

Consistent with the patent statute and *Continental Paper Bag*, this Court should reaffirm that principles of equity must be fully considered by the district courts in deciding upon and fashioning patent injunctions.

## III. DEVELOPMENTS IN TECHNOLOGY AND BUSINESS OPERATIONS REINFORCE THE WISDOM OF THE STATUTORY REQUIREMENT FOR APPLYING EQUITABLE PRINCIPLES WHEN CONSIDERING PATENT INJUNCTIONS

Aside from ignoring the statutory mandate and this Court's precedent, wooden application of the "general rule" of near-automatic patent injunctions divests district courts of their inherent discretion to apply principles of equity that may otherwise result in denial of a patent injunction in appropriate cases. It also prevents courts from considering factors that would aid in structuring or scoping an injunction, inevitably leading to overly broad patent injunctions. *See, e.g., Metabolite Labs., Inc. v. Lab. Corp. of Am.*, 370 F.3d 1354, 1371-72 (Fed. Cir. 2004) (patent claim limited to homocysteine testing and correlating elevated homocysteine levels with a vitamin B deficiency, infringer enjoined from all homocysteine testing), *cert. granted*, 126 S. Ct. 601 (2005).

Patent laws exist to promote the progress of technology. U.S. CONST. art. I, § 8, cl. 8; *Pfaff v. Wells Elec., Inc.*, 525 U.S. 55, 63 (1998) (patent system "encourages both the creation and the public disclosure of new and useful advances in technology"). During the 98 years since *Continental Paper Bag*, technology has developed at a remarkable rate, literally transforming the way businesses operate. The substantive patent laws have, over this time, been amended and

interpreted to keep pace with these advances in technology and business operations. As for injunctive relief, despite the statutory requirement to apply principles of equity, courts have instead enforced a rigid rule leading to nearly automatic, broadly-framed injunctions in all cases. This approach is counter-intuitive because the principles of equity provide the very flexibility that is needed to achieve just results in the face of change. Applicability of equitable principles to patent injunctions remains at least as important today as it was when *Continental Paper Bag* was decided.

### A. Except For The Remedy Of Injunctions, The Patent Laws Have Adapted To Changes In Technology And Business Operations

The substantive patent laws have adapted to accommodate the dramatic changes in technology since *Continental Paper Bag*. For example, the scope of patentable subject matter has expanded and evolved both by statute and by court interpretation to keep pace with new discoveries. *See, e.g.*, 35 U.S.C. § 161 (1954) (plant patents); 35 U.S.C. § 105 (1990) (inventions in outer space); *Diamond v. Chakrabarty*, 447 U.S. 303, 310 (1980) (patentability of new life form); *Diamond v. Diehr*, 450 U.S. 175, 191-92 (1981) (patentability of computer software). Complementary new laws and rules relating to patent infringement and validity have been enacted. *See, e.g.*, 35 U.S.C. § 271(e) (1988) (infringement of biotechnology inventions); 35 U.S.C. § 103(b) (1995) (validity of biotechnology inventions); 37 C.F.R. § 1.801 (1989) (biotechnology invention disclosures).

Business operations have changed dramatically in parallel with technological advances (*see infra* at pp. 11-15), and the manner in which innovation has occurred has changed as well. Modern innovation often involves collaborative efforts among otherwise independent entities, across national boundaries. The patent laws and their interpretations have adapted to accommodate these changes, with enactment of

provisions covering foreign manufacturing and collaborative invention. 35 U.S.C. § 271(f) (1984) (supply of components of a patented invention from the United States for assembly abroad); 35 U.S.C. § 271(g) (1988) (process inventions performed abroad); 35 U.S.C. § 103(c) (1984 & 2004) (collaboration under joint research agreements).[7]

While the patent laws and their interpretation have responded flexibly to changes in technology, business and commerce, the Federal Circuit's approach to patent injunctions has become rigid. Equitable considerations have been supplanted by the so-called "general rule" of routinely granting patent injunctions, absent exceptional public health concerns. Consideration of the full complement of equitable principles when fashioning patent injunctions will restore flexibility to the process and allow that process to keep pace with evolving technologies and businesses.

### B. The "General Rule" Ignores Modern Business Inter-dependency Whereby The Impact Of Patent Injunctions Extends Far Beyond Litigants

Technological developments of the last two decades have allowed and indeed forced separate business entities to become interoperable — they now can, must and do interact seamlessly across many points of contact as a means to remain competitive in the face of relentless global pressure.

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7. Whether or not one agrees with the ultimate results, these laws are being interpreted to respond to the dynamic technological and business environments. *See, e.g., NTP, Inc. v. Research in Motion, Ltd.*, 418 F.3d 1282, 1322-23 (Fed. Cir. 2005) (whether a United States patent applies to a wireless email system including operations occurring abroad under Section 271(f)), *cert. denied*, ___ U.S. ___ (2006); *Eolas Techs. Inc. v. Microsoft Corp.*, 399 F.3d 1325, 1338-41 (Fed. Cir. 2005) (whether software is a component of a patented product within the meaning of section 271(f)); *AT&T Corp. v. Microsoft Corp.*, 414 F.3d 1366, 1371 (Fed. Cir. 2005) ("whether software is sent abroad via electronic transmission or shipped abroad on a 'golden master' disk is a distinction without a difference for the purposes of § 271(f) liability").

*See* National Innovation Initiative, *Innovate America, National Innovation Initiative Report*, at 45 (Council on Competitiveness 2004), *available at* http://www.publicforum institute.org/nde/sources/NII_Final_Report.pdf [hereinafter "NII"] ("However, manufacturing no longer takes place in a single enterprise or location. Increasingly, the successful 21st century manufacturer is more of a system integrator, managing a supply chain or a virtual network of business process suppliers not controlled by the manufacturer itself."). This interoperability allows a business to rely on others to perform many functions that were previously managed within a single, vertically-integrated company. Thus, a business can focus on those operations that make it most competitive. *See* THOMAS L. FRIEDMAN, THE WORLD IS FLAT: A BRIEF HISTORY OF THE TWENTY-FIRST CENTURY, pp. 414 *et seq.* (Farrar, Straus & Giroux 2005) [hereinafter FRIEDMAN] (Dell realizes a competitive advantage from strategically outsourcing many aspects of its computer production).[8] As a result, the market is now characterized by networks of inter-dependent companies. *See* NII, at 45.

While these inter-dependent businesses are individually more efficient, they must rely on each other to an unprecedented level. As a result, an injunction against one company will likely have a substantial "ripple effect" through other inter-dependent businesses whether or not they infringe. Federal courts have considered this "ripple effect" in determining whether to grant a preliminary patent injunction. *See Litton Sys., Inc. v. Sundstrand Corp.*, 750 F.2d 952, 953-55 (Fed. Cir. 1984) (affirming denial of preliminary injunction that would prevent defendant from servicing

8. *See* ERIC VON HIPPEL, DEMOCRATIZING INNOVATION 163-64 (The MIT Press 2005) (advancements in tools allow businesses to design products independent of the manufacturing process). These advances have enabled the emergence of new business models, such as firms that design, but do not fabricate, semiconductor chips ("fabless semiconductor firms"). *See* http://www.fsa.org/association/milestones.asp (last visited Jan. 26, 2006) (as of 2004, the Fabless Semiconductor Association (FSA) had 450 members).

potential and existing customers and communicating with suppliers); *Archive Corp. v. Cipher Data Prods., Inc.*, 12 USPQ2d 1464, 1469 (C.D. Cal. 1988) (denying preliminary injunction that would leave third-party computer manufacturers without a source of supply, resulting in large financial losses). This Court recognized a potential "ripple effect" in *Continental Paper Bag*. 210 U.S. at 422-24, 429 (addressing effects of an injunction on "diminished supply or [] an increase in prices"). While the prospect of an injunction against one party affecting others is not new, the modern business and technology landscape makes it far more pronounced.[9]

The most fundamental technological developments enabling interoperability of businesses and their products have the advantages of being uniform, low-cost, widely adopted, geographically independent and available from many sources.[10] These advantages allow companies to maximize access to business partners without the expense of developing company-specific skills or tools.[11] In addition, these advantages make a company's products more attractive to customers by maximizing compatibility with complementary products.[12] To maximize access to business partners and achieve optimal product compatibility, companies collaborate to develop and adopt

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9. *See* ERIC MARKS & MARK WERRELL, EXECUTIVE'S GUIDE TO WEB SERVICES 181-82 (Wiley & Sons 2003) (describing seven categories of software and hardware vendors providing nine tools and applications residing in ten layers of system architecture, where multiple vendors control "critical elements of a web services value chain").

10. *See* ASTM Handbook of Standardization, *available at* http://www.astm.org/NEWS/handbook02/images/Handbook02.pdf (last visited Jan. 26, 2006) (American Society for Testing and Materials).

11. *See* FRIEDMAN, at 352-56.

12. *See* ASTM Handbook of Standardization.

industry standards.[13] Thus, our economy is characterized by networks of inter-dependent companies relying on such standards to work together and ensure product compatibility.

Broad reliance on a standard makes not only those implementing the standard vulnerable to a patent injunction but may also significantly affect other companies doing business with them.[14] The significant cumulative investment associated with broad adoption of a standard makes even the threat of an injunction against its practice particularly acute.[15] So profound is the impact of a patent injunction against the practice of a broadly-adopted standard that the mere possibility of patent coverage has led to the abandonment of some standards development efforts. *See* Anick Jesdanun, *Patent Spat Kills Anti-Spam Plan*,

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13. For example, each year in its Annual Book of ASTM Standards, ASTM International publishes more than 12,000 standards related to metals, paints, plastics, textiles, petroleum, construction, energy, the environment, consumer products, medical services and devices, electronics and many other areas. These standards and related information are broadly used worldwide as the basis for purchasing and other contracts, codes, laws and regulations. *ASTM International, 2004 ASTM International Annual Report, Focus 2004*, at 16 (2004), *available at* http://www.astm.org/NEWS/2004AnnualReport.pdf. *See* World Wide Web Consortium ("W3C"), *at* http://www.w3c.org (last visited Jan. 26, 2006) ("The World Wide Web Consortium (W3C) is an international consortium where Member organizations, a full-time staff, and the public work together to develop Web standards.").

14. Reliance on a standard is intensified when a standard is adopted by the government, or by formal industry mandate, *see, e.g.*, Institute of Electrical and Electronic Engineers, IEEE 802.11 (standard for wireless communications), *at* http://grouper.ieee.org/groups/802/11 (last visited Jan. 26, 2006), or informal industry mandate, *see, e.g.*, *eBay*, 401 F.3d at 1325 (fixed-price purchasing feature allowing customers to purchase items for fixed, listed price).

15. *See* CARL SHAPIRO & HAL R. VARIAN, INFORMATION RULES 11-13 (Harvard Business School Press 1999) ("once you have chosen a technology . . . switching can be very expensive").

CBS NEWS, Sept. 28, 2004, *at* http://www.cbsnews.com/stories/2004/09/28/tech/main645915.shtml.

Application of the well-accepted equitable factors will enable courts to evaluate not only the circumstances pertaining to patentees but also those affecting the inter-dependent enterprises that could be affected by an injunction when addressing patent injunctions. As we describe hereafter, application of equitable principles will restore needed flexibility to the determination of injunctive relief in a highly inter-dependent economy.

## IV. THE UNIQUE NATURE OF PATENT CASES WARRANTS CONSIDERATION OF EQUITABLE PRINCIPLES IN GRANTING AND STRUCTURING INJUNCTIONS

This Court has identified four factors relevant to injunctive relief inquiries — irreparable injury to the plaintiff, inadequacy of legal remedies, adverse effects on the public interest and the balance of hardships to the parties. *Weinberger*, 456 U.S. at 312. In a patent case, those factors can be summarized as the effects a patent injunction may have on the patentee, on the infringer and on the public.

The focus of any equitable analysis is "to do equity." *Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944). The command to do equity is especially relevant to injunctions where the court must consider not only whether to grant or deny an injunction but also how to structure the injunction properly. *Hecht*, 321 U.S. at 329 ("The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it."); *Friends of the Earth, Inc. v. Laidlaw Envtl. Servs., Inc.*, 528 U.S. 167, 193 (2000) ("federal courts should aim to ensure 'the framing of relief no broader than required by the precise facts.'").

Consistent with the command to do equity and within the purview of the traditional equitable principles, there are a variety of circumstances specific to patent cases, meriting consideration in granting and structuring injunctive relief.

### A. Consideration Of Irreparable Injury To The Patentee Focuses On The Conduct And Needs Of The Patentee

The so-called "general rule" presumes irreparable harm to the patentee, and thus fails to apply the equitable principles required by the patent statute. When properly analyzed, the patentee's conduct and needs may tend to show lack of irreparable harm and may weigh against granting an injunction or, if granted, may warrant appropriate moderation of the injunction.

For example, a court should consider whether the patentee has a legitimate economic interest in seeking an injunction. Where a patentee is practicing the invention, the ability to exclude its competitors remains the ultimate statement of respect for the exclusive nature of the patent grant. In such instances, a complete examination of the well-accepted equitable principles will undoubtedly result in a broad injunction in favor of the patent holder. However, if a legitimate economic interest in an injunction cannot be shown beyond the motivation to maximize negotiating leverage in settlement negotiations, this may be a factor weighing against granting an injunction or in favor of limiting its scope.

In *Continental Paper Bag*, this Court did, in fact, consider the patentee's legitimate economic interests in relation to the patent injunction. 210 U.S. at 429. There, a dissenting judge on the court of appeals (Judge Aldrich) would have denied an injunction if the patent was "deliberately held in nonuse for a wrongful purpose." 210 U.S. at 428. In analyzing the pertinent equities, this Court looked beyond simple nonuse of the patent, and examined

whether or not the underlying reason for the nonuse was reasonable:

> [C]an it be said, as a matter of law, that a nonuse was unreasonable which had for its motive the saving of the [considerable] expense that would have been involved by changing the equipment of a factory from one set of machines to another?

210 U.S. at 429. In contrast, the Federal Circuit in *eBay* held that the circumstances of MercExchange's nonuse were irrelevant to the grant of an injunction:

> If the injunction gives the patentee additional leverage in licensing, that is a natural consequence of the right to exclude and not an inappropriate reward to a party that does not intend to compete in the marketplace with potential infringers.

*eBay*, 401 F.3d at 1339; *cf. Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974) ("An injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances. It is not intended as a club to be wielded by a patentee to enhance his negotiating stance.") (citations omitted).

Another indicia of legitimate economic interest is whether the patentee and infringer are competitors in the marketplace. *See Continental Paper Bag*, 210 U.S. at 428-29. Competition between the patentee and the infringer in the market for the patented product may indicate a need on the part of the patentee to protect the market for its product and consequently irreparable injury if that market is not protected by an injunction. The patentee's need to prevent dilution of its market for a non-patented product may also constitute a legitimate economic interest weighing in favor of granting an injunction. *See Continental Paper Bag*, 210 U.S. at 428-29. On the other hand, a lack of legitimate

economic interest in seeking an injunction may be evidenced by the patentee's lack of a substantial business, or absence of a plan to launch a business, other than patent enforcement.

Another pertinent factor is the patentee's delay in bringing suit, which may indicate a willingness to tolerate the market effects of infringement or allow an infringer as well as similarly-situated members of the public to become committed to an infringing course of conduct. This may weigh against a finding of irreparable injury. *See High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc.*, 49 F.3d 1551, 1557 (Fed. Cir. 1995) (delay in seeking preliminary injunctive relief showing lack of irreparable injury).

The patentee's practices in the prosecution and management of its patent portfolio may also be relevant to the harm inquiry. For example, where the patentee engaged in continuation practice, *see* 35 U.S.C. § 120, filing the patent claim in suit after the defendant's infringing activities became public, it should be determined whether the claim was obtained to protect a product of the patentee or simply to strengthen its negotiating position with the infringer. The latter finding may suggest a lack of irreparable harm.

The patentee's grant of exclusive licenses to third parties may weigh in favor of a finding of irreparable harm. But, the patentee's grant of nonexclusive licenses to third parties or offering of a license to the infringer prior to commencing suit may weigh against such a finding. *See T.J. Smith & Nephew Ltd. v. Consolidated Med. Equip., Inc.*, 821 F.2d 646, 647-48 (Fed. Cir. 1987) (preliminary injunction denied in part because of prior licenses to third parties).

These same types of considerations should motivate an appropriate crafting of an injunction. For example, if the patentee and infringer do business in generally separate markets but compete in a specific product market, the injunction may be structured only to exclude the infringer from that market where they compete. Moreover, if the

patentee has only granted non-exclusive licenses in a particular field of use, reserving other fields for itself, an injunction may be structured to exclude the infringer from the fields reserved by the patentee.

### B. The Adequacy Of The Patentee's Legal Remedies Includes Consideration Of Patentee's Damages

The adequacy of the patentee's legal remedies is closely related to the inquiry of irreparable injury. Where the patentee is fully compensable at law (*i.e.*, in money damages), it can be said there is no irreparable injury. *SmithKline Beecham Corp. v. Apotex Corp.*, 247 F. Supp. 2d 1011, 1045 (N.D. Ill. 2003) (Posner, J., sitting by designation) ("The grant of an injunction in the circumstances disclosed by the evidence in this [patent infringement] case would be a *travesty of equity*. An injunction is a substitute for an award of damages in situations in which damages are difficult to calculate or are otherwise inadequate as a remedy for the wrong done by the defendant to the plaintiff.") (emphasis added), *aff'd in part*, 403 F.3d 1313 (Fed. Cir. 2005).

By statute, the patentee must receive full compensation for damages it suffered as a result of infringement. 35 U.S.C. § 284; *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654-55 (1983) (in enacting section 284, "Congress sought to ensure that the patent owner would in fact receive full compensation for 'any damages' he suffered as a result of the infringement."). The Federal Circuit and the district courts have constructed a highly-developed body of damages law ensuring a patentee the full opportunity to establish its damages. A patentee can prove damages as lost profits, where the patentee and infringer are competitors. *See State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1577-80 (Fed. Cir. 1989). As part of a lost profits analysis, the patentee can rely on theories of market share liability, price erosion and convoyed sales to demonstrate the full scope of its damages. *See BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc.*, 1 F.3d

1214, 1219 (Fed. Cir. 1993) (market share liability); *Ericsson, Inc. v. Harris Corp.*, 352 F.3d 1369, 1378 (Fed. Cir. 2003) (price erosion); *Interactive Pictures, Corp. v. Infinite Pictures Inc.*, 274 F.3d 1371, 1385-86 (Fed. Cir. 2001) (convoyed sales). A patentee can also prove its damages as a "reasonable royalty." 35 U.S.C. § 284. *See Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1554-55 (Fed. Cir. 1995) (computation of reasonable royalty). The patentee can recover lost profits or a "reasonable royalty" based on "'the value of an entire apparatus containing several features, even though only one feature is patented.' . . . when the patented feature is the basis for customer demand." *Fonar Corp. v. Gen. Elec. Co.*, 107 F.3d 1543, 1552 (Fed. Cir. 1997) ("entire market value rule") (citation omitted). A patentee is also entitled to pre- and post-judgment interest to ensure full compensation. *Transmatic Inc. v. Gulton Indus. Inc.*, 180 F.3d 1343, 1347-49 (Fed. Cir. 1999) (pre- and post-judgment interest).

Evidence that the patentee's damages can be readily ascertained — whether a "reasonable royalty" or lost profits — may show that the patentee has an adequate legal remedy. For example, the patentee's grant of licenses to third parties or offering of a license to the infringer prior to commencing suit tend to show its damages can be fully ascertained by a reasonable royalty. *See, e.g., Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1312-13 (Fed. Cir. 2002) ("patentee's prior license agreements 'should carry considerable weight in calculating a reasonable royalty rate.'"). Likewise, the patentee's profit margins and lost sales to the infringer may constitute evidence of the patentee's damages calculated as lost profits. *See, e.g., King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 863-64 (Fed. Cir. 1985).

There are many well-defined and comprehensive damages theories upon which courts can draw to frame adequate relief for past and/or continuing infringement of a patent as part of the equitable analysis for determining whether to grant a broad patent injunction.

### C. The Public Interest Encompasses Consideration Of The Overall Impact On The Public

The third well-accepted factor considered in granting injunctions, the public interest, allows courts to consider the effect of an injunction beyond the parties. *See United States v. Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 496 (2001) ("For 'several hundred years,' courts of equity have enjoyed 'sound discretion' to consider the 'necessities of the public interest' when fashioning injunctive relief."). However, consideration of the public interest encompasses more than those public health concerns which have characterized the Federal Circuit's limited analysis under its "general rule" over the past twenty years. *See supra* at p. 7.

Courts should be empowered and encouraged to consider whether the economic impact on the public weighs against granting a broad injunction. For example, as already explained *supra* at pp. 13-14, the Twentieth Century has seen the proliferation of industry standards which allow for significant efficiencies in the marketplace by enabling interoperability of many products and components. A patent may cover an industry standard so that, once the standard has been adopted and incorporated into a variety of interrelated products of various manufacturers, changing to a non-infringing design is essentially impossible. If businesses are forced to abandon a standard because of a threatened injunction, the impact on the public can be dramatic. *See* Paul Festa, *Eolas Suit May Spark HTML Changes*, CNET NEWS.COM, Sept. 19, 2003, *at* http://news.com.com/2100-1023-5079580.html.

Given the trend of increasing numbers of patent suits based on the practice of standards, an impact on the public may be expected to follow.[16] The impact of an injunction on

16. *See, e.g., Dynacore Holdings Corp. v. U.S. Philips Corp.*, 363 F.3d 1263, 1266-67 (Fed. Cir. 2004) (Dynacore asserted patent (Cont'd)

implementation of a standard is felt broadly by companies practicing the standard as well as their suppliers and customers. *See supra* at pp. 12-14. Likewise, the practical effect of an injunction against one of many inter-dependent companies is ultimately borne by the public. *See supra* at pp. 12-13.

When pervasive impact on the public is likely to result from imposition of a broad injunction affecting an industry standard, a court should be empowered and encouraged to fashion an injunction to preserve implementation of the standard, such as by enjoining only those infringements that do not comply with the standard. *See Cook Inc. v. Boston Scientific Corp.*, 333 F.3d 737, 744 (7th Cir. 2003) (Posner, J.) ("in determining the appropriate scope of [a contract] injunction the judge must give due weight to the injunction's possible effect on innocent third parties."). A patent may include one claim which constitutes a "necessary claim" — namely, a patent claim which cannot be avoided when implementing the standard — and other claims which are not "necessary claims", but cover useful adaptations or improvements. In that situation, a court could deny an injunction as to the "necessary claim", while granting it as to the other claims.

In some cases, the patent may cover a product that is well-established in the marketplace. A court should exercise discretion in such cases in view of the public interest in maintaining the product's availability. It may be appropriate in such cases to consider structuring the injunction to enjoin only new generations of the infringing product. Moreover,

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(Cont'd)
against devices conforming to IEEE Standard 1394 for "High Performance Serial Bus"); Complaint, QUALCOMM Inc. v. Nokia Corp., No. 05-CV-2063 (S.D. Cal., Nov. 4, 2005) (QUALCOMM sued Nokia for infringement of eleven patents directed to GSM, GPRS and EDGE cellular standards and sought an injunction against Nokia's continuing sales of accused products).

the equities associated with such well-established products may be more compelling if the patentee does not produce its own products that will satisfy market demand in the absence of the enjoined product.[17]

### D. The Balance Of Hardships To The Parties Includes Consideration Of Their Respective Business Models And Commercial Needs

The fourth equitable factor — the balance of hardships to the parties — enables courts to evaluate whether an injunction would have a disproportionate impact on either party. *See Harrisonville v. W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 338 (1933) ("Where substantial redress can be afforded by the payment of money and issuance of an injunction would subject the defendant to grossly disproportionate hardship, equitable relief may be denied although the nuisance is indisputable.").

A disproportionate hardship may often be determined by considering the patentee's and infringer's legitimate economic interests in terms of their respective business models and commercial needs. *See supra* at p. 16. In certain cases, an injunction may result in a windfall for the patentee, out of balance with the economic contribution of the patented invention. For example, to comply with a broadly-drawn injunction, the infringer may have to abandon significant investment or incur significant additional costs by retooling a manufacturing plant that was designed before the patent issued, canceling purchase orders for raw materials destined for use in manufacturing infringing products, destroying existing products in inventory, remanufacturing previously sold products or recalling products for their eventual destruction or remanufacture. These transactional costs may have little or nothing to do with the merits of the patented invention or the infringement of the patent.

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17. *See* Kurt M. Saunders, *Patent Nonuse and the Role of Public Interest as a Deterrent to Technology Suppression*, 15 HARV. J.L. & TECH. 389, 392 (2002).

Similarly, the original decision of the infringer may have been made without knowledge that it would result in patent infringement, or without ascribing any particular advantage to the later-found infringing approach. Nevertheless, years later, with money, resources and facilities inalterably committed, an unforeseen injunction may not be an equitable solution. *Cf. Continental Paper Bag*, 210 U.S. at 428-29 (considering cost involved in "changing the equipment of a factory from one set of machines to another", albeit to patentee, as a factor in equitable analysis).

Judge Posner has recognized that in these types of circumstances, the balance of hardships should be considered in denying an injunction:

> We have several times seen property rights distinguished from other sorts of legal interest in terms of remedies, and the point has now to be generalized: In conflicting-use situations in which transaction costs are high, the allocation of resources to their most valuable uses is facilitated by denying owners of property injunctive remedy against invasions of their rights instead limiting them to a remedy of damages . . . .

RICHARD A. POSNER, ECONOMIC ANALYSIS OF LAW 77 (Aspen Law & Business, 5th ed. 1998). In situations involving high transaction costs such as those described above, an injunction should be denied or appropriately tailored to avoid a "hold-up" of the infringer and resulting windfall to the patentee. *Id.* at 81 (discussing *Boomer v. Atl. Cement Co.*, 26 N.Y.2d 219, 257 N.E.2d 870 (1970), where closing cement plant would cost $45 million and cost of nuisance to plaintiffs was only $185,000, denying injunction was appropriate because plaintiffs could be adequately compensated with damages: "The cost to the plaintiffs of the nuisance was only $185,000. So *any* price for dissolving the injunction between $185,000 and $45 million would have made both sides better than if

the injunction were enforced. That is an *enormous* bargaining range. . . ."); *Walgreen Co. v. Sara Creek Prop. Co.*, 966 F.2d 273, 276-78 (7th Cir. 1992) (Posner, J.) (same).

Where an enjoined product contains many thousands of technological elements, as is often the case in the information technology industry, an injunction against a single element can prevent the marketing of a much larger product, an entire product line and/or interrelated products. This problem is exacerbated by product inter-dependence and adoption of industry standards, *see supra* at pp. 13-14, resulting in a disproportionate impact on the infringer by imposing a penalty that is far out of balance with the economic value of the infringing element. In contrast, the patentee will receive a windfall in that the effect of the injunction is far greater than the value of the patented invention.

Certain acts by the patentee may show undue hardship on the infringer. For example, if the patentee engaged in continuation practice, *see* 35 U.S.C. § 120, simply to strengthen its negotiating position with the infringer, that may indicate disproportionate hardship on the infringer. *See supra* at p. 18. On the other hand, certain acts by the infringer may show lack of hardship, weighing in favor of a broad injunction to ensure preservation of the patentee's rights. For example, where the infringer has notice of the patent before commencing infringement, slavishly copies the patented invention or does not undertake a good faith effort to evaluate the issues of patent infringement or validity after being made aware of the patent, the infringer may not be able to establish a hardship. *See Monsanto Co. v. Scruggs*, 249 F. Supp. 2d 746, 759 (N.D. Miss. 2001) (preliminary injunction granted where defendants used patented technology with full knowledge and disregard of existence of plaintiff's patent rights).

### E. Balancing Of Equitable Principles Will Ensure Flexibility In Considering Stays Of Patent Injunctions Pending Appeal

The equitable factors traditionally considered when granting and structuring injunctions should also be considered in determining whether to stay an injunction pending appeal in a patent case. *See Standard Havens Prods., Inc. v. Gencor Indus., Inc.* 897 F.2d 511, 512 (Fed. Cir. 1990); *E.I. du Pont de Nemours & Co. v. Phillips Petroleum Corp.*, 835 F.2d 277, 278 (Fed. Cir. 1987). For example, the economic harm resulting from enforcing an injunction pending appeal has been recognized:

> [T]he defendants [] had a large amount of money invested in boring machines constructed mainly under other patents but containing nevertheless the invention of the patent in suit. These machines were, and are, in various stages of completion. Their "construction, use or sale" is now enjoined, and, in consequence, they stand idle in the plant of the defendants awaiting the outcome of this appeal.
>
> * * *
>
> Not overlooking the complainant's rights in the monopoly which the law has given him, it should be observed that he is not manufacturing under this patent nor, so far as we have been informed, has he any licenses outstanding. In other words, he is not a competitor of the defendants, nor are the defendants competitors of his, in the manufacture of boring machines. Therefore it would seem that enforcement of the injunction would cause much greater injury to the defendants than benefit to the complainant.

*Landis Tool Co. v. Ingle*, 286 F. 5, 6-7 (3d Cir. 1923) (citations omitted). The threat of an injunction — even one that only lasts between the initial judgment of the district court and

final judgment subsequent to appeal — is sufficiently destructive to cause many infringers to undertake settlements that are not otherwise economically justified simply to avoid the costs associated with an interruption in business.

Considerations in addition to those set forth above, but still within the purview of the traditional equitable principles, may also bear on the determination of whether to stay an injunction pending appeal. For example, the validity of the asserted patent may be in question through reexamination, *see* 35 U.S.C. §§ 302-05,[18] or through a parallel proceeding in another district court. Also, the patentee may not be irreparably harmed until a particular event occurs, for example, until the patentee actually begins manufacturing the patented article. *See, e.g., Landis Tool*, 286 F. at 7; *Moxness Prods., Inc. v. Xomed, Inc.*, Civ. No. 86-100-CIV-J-14, 1988 U.S. Dist. LEXIS 16060, at *10-11 (M.D. Fla., May 10, 1988) (preliminary injunction denied, patentee not harmed because not currently practicing invention).

Denial of a stay pending appeal may serve little purpose where the infringer is a solvent commercial entity and the patentee has no compelling need for an immediate injunction. *See Barnard v. Gibson*, 48 U.S. (7 How.) 650, 658 (1849) ("unless the defendants below are in doubtful circumstances, and cannot give bond to respond in damages for the use of the machines, should the right of the plaintiff be finally established, we suppose that the injunction will be suspended. Such is a correct course of practice. . . .").

Finally, the high reversal rate of district court decisions by the Federal Circuit further counsels in favor of staying injunctions pending appeal. "The reversal rate (rate at which

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18. In 74% of reexamination proceedings filed from 1981-2003, the claims were either changed, *i.e.*, narrowed, or cancelled. *See* Paul Morgan & Bruce Stoner, *Reexamination vs. Litigation — Making Intelligent Decisions in Challenging Patent Validity*, 86 J. PAT. & TRADEMARK OFF. SOC'Y 441, 460-63 (2004).

the Federal Circuit determined the claim construction was wrong) for appealed claim terms from 1996, after *Markman* was decided, through 2003 is 34.5%." Kimberly A. Moore, *Markman Eight Years Later: Is Claim Construction More Predictable?*, 9 LEWIS & CLARK L. REV. 231, 233, 239 (2005). More specifically, the Federal Circuit claim construction reversal rate in cases where the patentee won at the district court is 32.3%. *See id.* at 241. Claim construction is crucial to the ultimate determination of infringement and validity. Granting a stay of an injunction is warranted given the significant chance the infringer will prevail on appeal. A stay can easily be lifted post-appeal, yet the negative impact on the accused infringer of an ultimately inappropriate injunction may never be overcome.

## CONCLUSION

For the foregoing reasons, IBM respectfully requests that this Court reaffirm its precedent in *Continental Paper Bag* that the granting and structuring of injunctions in patent cases requires consideration of the well-accepted equitable factors, in accordance with 35 U.S.C. § 283.

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